

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

|  |                        |   |                     |
|--|------------------------|---|---------------------|
| Local Unit of Government Type<br><input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other |                        | Local Unit Name<br>City of Parchment            | County<br>Kalamazoo |
| Fiscal Year End<br>6/30/06   | Opinion Date<br>9/8/06 | Date Audit Report Submitted to State<br>11/8/06 |                     |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

|  |                                     |  |             |
|--|-------------------------------------|--|-------------|
| <b>We have enclosed the following:</b>                     | Enclosed                            | Not Required (enter a brief justification) |             |
| Financial Statements                                       | <input checked="" type="checkbox"/> |  |             |
| The letter of Comments and Recommendations                 | <input checked="" type="checkbox"/> |  |             |
| Other (Describe)   | <input checked="" type="checkbox"/> | SAS 61 Letter                              |             |
| Certified Public Accountant (Firm Name)<br>Seber Tans, PLC |                                     | Telephone Number<br>(269) 343-8180         |             |
| Street Address<br>555 W. Crosstown Parkway, Suite 304      |                                     | City<br>Kalamazoo                          | State<br>MI |
| Zip<br>49008   |                                     |  |             |
| Authorizing CPA Signature<br><i>Matthew A Howard, CPA</i>  | Printed Name<br>Matthew Howard      | License Number<br>1101013253               |             |

**CITY OF PARCHMENT, MICHIGAN**  
**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**For the Year Ended June 30, 2006**

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# SEBER TANS, PLC

## CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

### INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor  
and Members of the City Commission  
City of Parchment, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the City of Parchment, Michigan (the City) as of and for the year ended June 30, 2006, which collectively comprises the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the City of Parchment, Michigan as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2-8 and 38-40, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Seber Tans, PLC  
Kalamazoo, Michigan

September 8, 2006

**CITY OF PARCHMENT, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2006**

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This section of the City of Parchment's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the City's financial statements, which follow this section.

**Third Year - Governmental Accounting Standards Board Statement No.34**

The City of Parchment is reporting the new Governmental Accounting Standards Board Statement No.34 reporting requirement for the third time this year. Known as GASB 34, the new reporting requirement includes this letter, which should provide a comparative analysis between the current-year and prior-year financial information. The following information presents a comparative analysis of key elements of the total governmental funds and the total enterprise funds.

**Financial Highlights**

The City's Total Net Assets are \$5,985,117.

During the year, the City's expenses were \$38,588 less than the \$1,910,744 generated in taxes, other revenues and other financing sources for governmental programs.

The City's General Fund fund balance at year end was \$812,229, which represents 7 months of budgeted expenditures in the 2006-07 fiscal year.

**Overview of the Financial Statements**

This annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for non major governmental funds and internal service funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

The governmental fund statements tell how general government services like public safety was financed in the short term as well as what remains for future spending.

Proprietary fund statements offer short and long-term financial information about the activities that the government operates like businesses, such as the water and sewer system.

**CITY OF PARCHMENT, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2006**

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The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our non-major governmental funds and internal service funds, each of which are added together and presented in single columns in the basic financial statements.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets - the difference between the City's assets and liabilities, is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's roads.

The government-wide financial statements of the City are divided into three categories:

- Governmental activities - Most of the City's basic services are included here, such as the police, fire, public works, and parks departments and general administration. Property taxes and state grants finance most of these activities.
- Business-type activities - The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer systems are included here.
- Component units - The City includes one other entity in its report - the Downtown Development Authority. Although legally separate, this "component unit" is important because the City is financially accountable for it.

**CITY OF PARCHMENT, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2006**

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Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.

The City has two kinds of funds:

- Governmental funds - Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between the two sets of statements.
- Proprietary funds - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
- In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- We use internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the City's other programs and activities - such as the City's Internal Services Fund.

**Financial Analysis of the City as a Whole**

Changes in Net assets

The City's combined net assets are \$5,985,117. In comparison, last year net assets were \$5,587,630 an increase of \$397,487. Governmental activities have total net assets of \$4,045,714.

|                                   | <b>Governmental<br/>Activities<br/>2006</b> | <b>Business-type<br/>Activities<br/>2006</b> | <b>Total<br/>2006</b> |
|-----------------------------------|---|--|-----------------------|
| Current and long term assets      | \$ 4,429,455                                | \$ 2,012,211                                 | \$ 6,441,666          |
| Current and long term liabilities | 383,741                                     | 72,808                                       | 456,549               |
| Total net assets                  | <u>\$ 4,045,714</u>                         | <u>\$ 1,939,403</u>                          | <u>\$ 5,985,117</u>   |

**CITY OF PARCHMENT, MICHIGAN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended June 30, 2006**

Governmental Activities

The City's Administration took several actions this year to reduce expenses. Steps were taken to reduce communication expenses. The City does not have many options to increase revenue. The City's total governmental fund revenues excluding other financing sources were \$1,910,744 this year. Property taxes were \$702,331 or 36.7% of the total revenues. Property tax increases are controlled by various State laws that favor newer, undeveloped cities while severely restricting developed cities (like Parchment) to amounts at or below the rate of inflation. State revenue sharing made up \$333,167 or 17% of the total revenue, down 10% from last year. The distribution of this revenue is controlled by State laws. This year there was \$408,639 in private contributions for the stage project, representing 21 % of the total revenue. The City also received \$248,525 in the form of a planning grant, used for the mill redevelopment project. The remaining 14% of governmental fund revenues are comprised mostly of Charges for Services and Interest revenue.

Business-Type Activities

Operating revenues of the City's business-type activities increased from the prior year of \$397,922 to the current year total of \$521,577. Operating expenses increased \$14,393 to \$497,533. A sewer rate increase was instituted this year allowing an increase in retained earnings in the sewer fund.

|                                  | <u>Governmental<br/>Activities</u> | <u>Business-type<br/>Activities</u> | <u>Total</u>      |
|----------------------------------|------------------------------------|-------------------------------------|-------------------|
| Revenue                          |                                    |                                     |                   |
| Program revenue                  |                                    |                                     |                   |
| Charges for services             | \$ 81,917                          | \$ 521,577                          | \$ 603,494        |
| General revenue:                 |                                    |                                     |                   |
| Property taxes                   | 702,331                            | ---                                 | 702,331           |
| Capital grants and contributions | 657,164                            | ---                                 | 657,164           |
| State-shared revenue             | 333,167                            | ---                                 | 333,167           |
| Investment income                | 27,378                             | 1,168                               | 28,546            |
| Other revenue                    | 109,022                            | 89                                  | 109,111           |
| Total revenue                    | <u>1,910,979</u>                   | <u>522,834</u>                      | <u>2,433,813</u>  |
| Program expenses                 |                                    |                                     |                   |
| General government               | 621,950                            | ---                                 | 621,950           |
| Public safety                    | 416,267                            | ---                                 | 416,267           |
| Public works                     | 363,438                            | ---                                 | 363,438           |
| Recreation and culture           | 132,606                            | ---                                 | 132,606           |
| Interest on long term debt       | 4,532                              | ---                                 | 4,532             |
| Water and sewer                  | ---                                | 497,533                             | 497,533           |
| Total program expenses           | <u>1,538,793</u>                   | <u>497,533</u>                      | <u>2,036,326</u>  |
| Change in net assets             | <u>\$ 372,186</u>                  | <u>\$ 25,301</u>                    | <u>\$ 397,487</u> |



**CITY OF PARCHMENT, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2006**

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Financial Analysis of the City's Funds

As the City completed the year, its governmental funds reported a combined fund balance of \$1,142,290, \$38,588 higher than last year.

The City's Funds

The fund financial statements provide detailed information about the most significant funds, not the City of Parchment as a whole. The City Commission created funds to help manage money for specific purposes as well as show accountability for certain activities, such as the State of Michigan Act 51, Major and Local Street funds. The City of Parchment governmental major funds include the General Fund and the Major and Local Street Funds.

- General Fund  
Functions relating to the general governmental activities of the City, which are financed by property tax levies, by distribution of State revenues, from fees charged for various municipal activities and services are recorded in the General Fund. This fund had a fund balance increase of \$9,476 over 2005.
- Major and Local Street Funds  
The State of Michigan provides municipalities revenues from gas and weight taxes to reimburse expenditures for the maintenance and construction of the local street system. The State requires that these expenditures be segregated into a Major Street component and a Local Street component. The City uses these for improvements to the city street system, along with contributions from General Fund. Major Streets had an increase in fund balance of \$31,621 and Local Streets had a decrease of \$2,509.

General Fund Budgetary Highlights

The budget for 2005-2006 was passed on June 06, 2005. Over the course of the year the City of Parchment amended the budget to take into account unanticipated events during the year. There were two budget amendments during fiscal year 2005-2006. The legislative budget was increased by \$38,536 to account for grant related expenditures for the Mill redevelopment Planning Grant. These expenditures were offset by grant revenues. The legislative budget was also increased by \$401,000 to account for the construction of a stage in Kindleberger Park. The expenses were subsequently recorded in the Parks budget. These expenditures were offset by private donations and grants.

**CITY OF PARCHMENT, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2006**

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Capital Assets

At the end of 2006, the City had invested \$4,124,182 in capital assets, net of related debt. This amount complies with methods established by the Governmental Accounting Standards Board (GASB) for implementation of GASB statement 34. Capital assets as stated in this annual financial report do not include some infrastructure items such as sidewalks and streets. Financial reporting in past years has not required some infrastructure items to be included with capital assets. Recognizing the problem of having cities gather together all of the required information, GASB has allowed cities to comply with this portion of statement 34 over a number of years. This year's major capital improvements included the following:

- Construction of Stage .....\$393,315
- Purchase & outfitting of Police Car.....\$ 29,053
- Repaving of Roadway.....\$ 28,742
- Investment in Water Plant improvements.....\$165,839

Long-term Debt

At year-end the City had \$880,000 in bonds and notes outstanding for the Downtown Development Authority and \$95,598 in a note for the Fire Truck.

Limitations on Debt

The State limits the amount of general obligation debt the City can issue to 7% of the assessed value of all taxable property within the City's corporate limits. Our legal debt limit is \$3,836,652. The City has an available unused portion of \$2,861,054.

Bond Ratings

Standard and Poor's Investors Service, has given the City of Parchment a BBB bond rating, recognizing the affect of the Crown Paper Company bankruptcy and closing.

Economic Factors and Next Year's Budgets and Rates

The inflation rate for use in the 2005 capped value formula, and the 2005 "Headlee" millage reduction fraction formula was 3.2%. The capped value and the Headlee millage reduction are key elements in determining property tax revenues.

The City has again produced a timely budget for fiscal year 2007. Total appropriations in the General fund 2007 budget are \$1,392,681 an decrease of \$ 653,765 over the final 2006 budget of \$2,046,446.

**CITY OF PARCHMENT, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2006**

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Future Development

The City of Parchment has entered into a pre-development agreement with Lundine and Associates who will purchase and develop the former Crown Vantage property currently owned by the City. The property is a Brownfield site and is approximately 85 acres in size and includes approximately 18 buildings and a wastewater treatment plant. There are some recognized and anticipated environmental issues on the property. The Michigan Department of Environmental Quality (MDEQ) has conducted recent testing on the site and a report and recommendation will be forthcoming in the next 60 days. We are familiar with the test results and the developer is prepared to address site remediation issues.

At this time the redevelopment plan anticipates 658 residential units, 74,000 square feet of retail space and a variety of recreational facilities. The construction activity will include paved streets with curb and gutter, sidewalks, municipal water and sewer and other underground utilities. The development management will be responsible to manage the construction activity with oversight by city staff and contracted building officials.

Contacting the City's Financial Administration

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Parchment, 650 S Riverview Drive, Parchment, MI 49004.

**CITY OF PARCHMENT, MICHIGAN**  
**STATEMENT OF NET ASSETS**  
**June 30, 2006**

|  | Primary Government              |                                 |              |                    |
|--|---------------------------------|---------------------------------|--------------|--------------------|
|  | Govern-<br>Mental<br>Activities | Business-<br>Type<br>Activities | Total        | Component<br>Units |
| ASSETS   |                                 |                                 |              |                    |
| Cash and cash equivalents                          | \$ 321,459                      | \$ 84,164                       | \$ 405,623   | \$ 28,123          |
| Investments  | 1,199,603                       | 314,373                         | 1,513,976    | 105,048            |
| Receivables  | 112,638                         | 139,925                         | 252,563      | 846                |
| Inventory  | 2,443                           | 15,279                          | 17,722       | ---                |
| Prepaid expenses                                   | 654                             | ---                             | 654          | ---                |
| Due from State                                     | 21,350                          | ---                             | 21,350       | ---                |
| Capital assets - net                               | 2,771,308                       | 1,458,470                       | 4,229,778    | 4,919              |
| TOTAL ASSETS                                       | \$ 4,429,455                    | \$ 2,012,211                    | \$ 6,441,666 | \$ 138,936         |
| LIABILITIES AND NET ASSETS                         |                                 |                                 |              |                    |
| LIABILITIES  |                                 |                                 |              |                    |
| Accounts payable                                   | \$ 154,722                      | \$ 60,950                       | \$ 215,672   | \$ ---             |
| Accrued and other liabilities                      | 10,940                          | 2,172                           | 13,112       | 12,138             |
| Due to others                                      | 790                             | ---                             | 790          | ---                |
| Due to other governments                           | 5,229                           | ---                             | 5,229        | ---                |
| Due to other funds                                 | 32,325                          | 9,686                           | 42,011       | ---                |
| Noncurrent liabilities                             |                                 |                                 |              |                    |
| Due within one year                                | 35,211                          | ---                             | 35,211       | 160,000            |
| Due in more than one year                          | 144,524                         | ---                             | 144,524      | 720,000            |
| TOTAL LIABILITIES                                  | 383,741                         | 72,808                          | 456,549      | 892,138            |
| NET ASSETS   |                                 |                                 |              |                    |
| Invested in capital assets, net of<br>related debt | 2,665,712                       | 1,458,470                       | 4,124,182    | (875,081)          |
| Restricted for streets                             | 330,061                         | ---                             | 330,061      | ---                |
| Unrestricted                                       | 1,049,941                       | 480,933                         | 1,530,874    | 121,879            |
| TOTAL NET ASSETS (DEFICIT)                         | 4,045,714                       | 1,939,403                       | 5,985,117    | (753,202)          |
| TOTAL LIABILITIES AND NET<br>ASSETS (DEFICIT)      | \$ 4,429,455                    | \$ 2,012,211                    | \$ 6,441,666 | \$ 138,936         |

*See Notes to Financial Statements*

**CITY OF PARCHMENT, MICHIGAN**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2006**

| Functions/Programs                         | Program Revenue      |                                  | Net (Expense) Revenue and Changes in Net Assets |                          |                     |                     |
|--|----------------------|----------------------------------|---|--------------------------|---------------------|---------------------|
|  | Charges for Services | Capital Grants and Contributions | Governmental Activities                         | Business-Type Activities | Totals              | Component Units     |
| <b>Primary government</b>                  |                      |                                  |   |                          |                     |                     |
| Governmental activities                    |                      |                                  |   |                          |                     |                     |
| General government                         | \$ 621,950           | \$ 248,525                       | \$ (299,240)                                    | \$ ---                   | \$ (299,240)        | \$ ---              |
| Public safety                              | 416,267              | ---                              | (408,535)                                       | ---                      | (408,535)           | ---                 |
| Public works                               | 363,438              | ---                              | (363,438)                                       | ---                      | (363,438)           | ---                 |
| Recreation and culture                     | 132,606              | 408,639                          | 276,033   | ---                      | 276,033             | ---                 |
| Interest on long term debt                 | 4,532                | ---                              | (4,532)   | ---                      | (4,532)             | ---                 |
| <b>TOTAL GOVERNMENTAL ACTIVITIES</b>       | <b>1,538,793</b>     | <b>657,164</b>                   | <b>(799,712)</b>                                | <b>---</b>               | <b>(799,712)</b>    | <b>---</b>          |
| Business-type activities                   |                      |                                  |   |                          |                     |                     |
| Water                                      | 221,536              | ---                              | ---   | 50,730                   | 50,730              | ---                 |
| Sewer                                      | 275,997              | ---                              | ---   | (26,686)                 | (26,686)            | ---                 |
| <b>TOTAL BUSINESS-TYPE ACTIVITIES</b>      | <b>497,533</b>       | <b>---</b>                       | <b>---</b>                                      | <b>24,044</b>            | <b>24,044</b>       | <b>---</b>          |
| <b>TOTAL PRIMARY GOVERNMENT</b>            | <b>\$ 2,036,326</b>  | <b>\$ 657,164</b>                | <b>(799,712)</b>                                | <b>24,044</b>            | <b>(775,668)</b>    | <b>---</b>          |
| <b>Component Unit</b>                      |                      |                                  |   |                          |                     |                     |
| Downtown Development Authority             | \$ 110,356           | ---                              | ---   | ---                      | ---                 | (110,356)           |
| <b>GENERAL REVENUES</b>                    |                      |                                  |   |                          |                     |                     |
| Property taxes                             |                      |                                  | 702,331   | ---                      | 702,331             | 271,996             |
| State shared revenue                       |                      |                                  | 333,167   | ---                      | 333,167             | ---                 |
| Investment income                          |                      |                                  | 27,378  | 1,168                    | 28,546              | 195                 |
| Licenses and permits                       |                      |                                  | 21,515  | ---                      | 21,515              | ---                 |
| Fines and forfeitures                      |                      |                                  | 13,555  | ---                      | 13,555              | ---                 |
| Miscellaneous                              |                      |                                  | 73,952  | 89                       | 74,041              | ---                 |
| <b>TOTAL GENERAL REVENUES</b>              |                      |                                  | <b>1,171,898</b>                                | <b>1,257</b>             | <b>1,173,155</b>    | <b>272,191</b>      |
| <b>INCREASE IN NET ASSETS</b>              |                      |                                  | <b>372,186</b>                                  | <b>25,301</b>            | <b>397,487</b>      | <b>161,835</b>      |
| Net assets (deficit) at beginning of year  |                      |                                  | 3,673,528                                       | 1,914,102                | 5,587,630           | (915,037)           |
| <b>NET ASSETS (DEFICIT) AT END OF YEAR</b> |                      |                                  | <b>\$ 4,045,714</b>                             | <b>\$ 1,939,403</b>      | <b>\$ 5,985,117</b> | <b>\$ (753,202)</b> |

See Notes to Financial Statements

**CITY OF PARCHMENT, MICHIGAN**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**June 30, 2006**

|  | <u>General</u>             | <u>Major<br/>Street</u>  | <u>Local<br/>Street</u> | <u>Total<br/>Govern-<br/>Mental</u> |
|--|----------------------------|--------------------------|-------------------------|-------------------------------------|
| <b>ASSETS</b>                                  |                            |                          |                         |                                     |
| Cash and cash equivalents                      | \$ 198,225                 | \$ 54,808                | \$ 10,496               | \$ 263,529                          |
| Investments                                    | 739,295                    | 204,719                  | 39,207                  | 983,221                             |
| Receivables                                    |                            |                          |                         |                                     |
| Trade  | 9,520                      | ---                      | ---                     | 9,520                               |
| Taxes  | 12,335                     | ---                      | ---                     | 12,335                              |
| Trash and recycling                            | 18,518                     | ---                      | ---                     | 18,518                              |
| State shared revenue                           | 25,733                     | ---                      | ---                     | 25,733                              |
| Interest                                       | 5,789                      | 1,447                    | ---                     | 7,236                               |
| Prepaid expenses                               | 654                        | ---                      | ---                     | 654                                 |
| Due from state                                 | ---                        | 15,075                   | 6,275                   | 21,350                              |
| <b>TOTAL ASSETS</b>                            | <u><b>\$ 1,010,069</b></u> | <u><b>\$ 276,049</b></u> | <u><b>\$ 55,978</b></u> | <u><b>\$ 1,342,096</b></u>          |
| <b>LIABILITIES AND FUND BALANCES</b>           |                            |                          |                         |                                     |
| <b>LIABILITIES</b>                             |                            |                          |                         |                                     |
| Accounts payable                               | \$ 152,972                 | \$ 454                   | \$ ---                  | \$ 153,426                          |
| Accrued wages                                  | 9,418                      | 41                       | ---                     | 9,459                               |
| Accrued payroll taxes                          | 705                        | 3                        | ---                     | 708                                 |
| Due to other funds                             | 28,726                     | 865                      | 603                     | 30,194                              |
| Due to other governments                       | 5,229                      | ---                      | ---                     | 5,229                               |
| Due to others                                  | 790                        | ---                      | ---                     | 790                                 |
| <b>TOTAL LIABILITIES</b>                       | <u>197,840</u>             | <u>1,363</u>             | <u>603</u>              | <u>199,806</u>                      |
| <b>FUND BALANCES</b>                           |                            |                          |                         |                                     |
| Reserved for disaster                          | 500                        | ---                      | ---                     | 500                                 |
| Reserved for sight development                 | 173,306                    | ---                      | ---                     | 173,306                             |
| Reserved for streets                           | ---                        | 274,686                  | 55,375                  | 330,061                             |
| Unreserved                                     | 638,423                    | ---                      | ---                     | 638,423                             |
| <b>TOTAL FUND BALANCES</b>                     | <u>812,229</u>             | <u>274,686</u>           | <u>55,375</u>           | <u>1,142,290</u>                    |
| <b>TOTAL LIABILITIES AND FUND<br/>BALANCES</b> | <u><b>\$ 1,010,069</b></u> | <u><b>\$ 276,049</b></u> | <u><b>\$ 55,978</b></u> | <u><b>\$ 1,342,096</b></u>          |

*See Notes to Financial Statements*

**CITY OF PARCHMENT, MICHIGAN**  
**RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET**  
**ASSETS – GOVERNMENTAL FUNDS**  
**June 30, 2006**

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Total governmental fund balances \$ 1,142,290

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and are not reported in the funds:

|                                   |                  |           |
|-----------------------------------|------------------|-----------|
| The cost of the capital assets is | 3,556,683        |           |
| Accumulated depreciation is       | <u>(899,007)</u> | 2,657,676 |

Other assets are not available to pay for current year expenditures and therefore are deferred in the funds and recognized as revenue in the statement of activities:

|                      |        |
|----------------------|--------|
| State shared revenue | 37,849 |
|----------------------|--------|

Long term liabilities that are not due and payable in the current period and are not reported in the funds:

|                              |               |           |
|------------------------------|---------------|-----------|
| Compensated absences payable | 74,139        |           |
| Lease payable                | 6,998         |           |
| Note payable                 | <u>98,598</u> | (179,735) |

Internal service funds are used by management to charge the cost of equipment to individual funds:

|   |                |
|---|----------------|
| Certain assets and liabilities of internal service funds are included in governmental activities in the statement of net assets | <u>387,634</u> |
|---|----------------|

|  |                            |
|--|----------------------------|
| <b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b> | <b><u>\$ 4,045,714</u></b> |
|--|----------------------------|

*See Notes to Financial Statements*

**CITY OF PARCHMENT, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES – GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2006**

|  | <u>General</u>           | <u>Major<br/>Street</u>  | <u>Local<br/>Street</u> | <u>Total<br/>Govern-<br/>Mental</u> |
|--|--------------------------|--------------------------|-------------------------|-------------------------------------|
| <b>REVENUES</b>  |                          |                          |                         |                                     |
| Taxes  | \$ 702,096               | \$ ---                   | \$ ---                  | \$ 702,096                          |
| Licenses and permits   | 21,515                   | ---                      | ---                     | 21,515                              |
| Contributions  | 408,639                  | ---                      | ---                     | 408,639                             |
| State grants   | 205,323                  | 91,299                   | 36,545                  | 333,167                             |
| Federal grants   | 248,525                  | ---                      | ---                     | 248,525                             |
| Charges for service  | 81,917                   | ---                      | ---                     | 81,917                              |
| Fines and forfeitures  | 13,555                   | ---                      | ---                     | 13,555                              |
| Investment income  | 26,064                   | 955                      | 359                     | 27,378                              |
| Other revenue  | 73,952                   | ---                      | ---                     | 73,952                              |
| <b>TOTAL REVENUES</b>  | <u>1,781,586</u>         | <u>92,254</u>            | <u>36,904</u>           | <u>1,910,744</u>                    |
| <b>EXPENDITURES</b>  |                          |                          |                         |                                     |
| Current  |                          |                          |                         |                                     |
| General government   | 563,668                  | ---                      | ---                     | 563,668                             |
| Public safety  | 389,592                  | ---                      | ---                     | 389,592                             |
| Public works   | 249,609                  | 31,891                   | 39,413                  | 320,913                             |
| Recreation and culture                                       | 108,306                  | ---                      | ---                     | 108,306                             |
| Capital outlay   | 422,368                  | 28,742                   | ---                     | 451,110                             |
| Debt service   | 38,567                   | ---                      | ---                     | 38,567                              |
| <b>TOTAL EXPENDITURES</b>                                    | <u>1,772,110</u>         | <u>60,633</u>            | <u>39,413</u>           | <u>1,872,156</u>                    |
| <b>EXCESS (DEFICIENCY) OF<br/>REVENUES OVER EXPENDITURES</b> | 9,476                    | 31,621                   | (2,509)                 | 38,588                              |
| Fund balances at beginning of year                           | <u>802,753</u>           | <u>243,065</u>           | <u>57,884</u>           | <u>1,103,702</u>                    |
| <b>FUND BALANCES AT END OF YEAR</b>                          | <u><b>\$ 812,229</b></u> | <u><b>\$ 274,686</b></u> | <u><b>\$ 55,375</b></u> | <u><b>\$ 1,142,290</b></u>          |

*See Notes to Financial Statements*



**CITY OF PARCHMENT, MICHIGAN**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES TO THE STATEMENT OF**  
**ACTIVITIES – GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2006**

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Net change in fund balance – total governmental funds \$ 38,588

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

|                      |                |         |
|----------------------|----------------|---------|
| Depreciation expense | (92,436)       |         |
| Capital outlay       | <u>451,110</u> | 358,674 |

Repayment of long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt payable)

|               |               |        |
|---------------|---------------|--------|
| Lease payable | 3,499         |        |
| Note payable  | <u>30,469</u> | 33,968 |

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

|                      |  |          |
|----------------------|--|----------|
| Compensated absences |  | (24,807) |
|----------------------|--|----------|

Assets are not available to pay for current period expenditures and therefore are deferred in the funds and recognized as revenue in the statement of activities:

|                                     |  |     |
|-------------------------------------|--|-----|
| Change in property taxes receivable |  | 235 |
|-------------------------------------|--|-----|

Internal service funds are used by management to charge the cost of equipment to individual funds. Certain net revenue (expense) of internal service funds are included in governmental activities in the statement of activities:

(34,472)

|  |  |                          |
|--|--|--------------------------|
| <b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b> |  | <b><u>\$ 372,186</u></b> |
|--|--|--------------------------|

**CITY OF PARCHMENT, MICHIGAN**  
**STATEMENT OF NET ASSETS – PROPRIETARY FUNDS**  
**June 30, 2006**

|   | <u>Business-Type Activities – Enterprise Funds</u> |                            |                            | <u>Internal<br/>Service<br/>Funds</u> |
|---|--|----------------------------|----------------------------|---------------------------------------|
|   | <u>Sewer</u>                                       | <u>Water</u>               | <u>Total</u>               |                                       |
| <b>ASSETS</b>                               |  |                            |                            |                                       |
| <b>CURRENT ASSETS</b>                       |  |                            |                            |                                       |
| Cash and cash equivalents                   | \$ 31,511  | \$ 52,653                  | \$ 84,164                  | \$ 57,930                             |
| Investments                                 | 117,700  | 196,673                    | 314,373                    | 216,382                               |
| Inventory                                   | ---  | 15,279                     | 15,279                     | 2,443                                 |
| Accounts receivable                         | 71,758   | 65,876                     | 137,634                    | ---                                   |
| Interest receivable                         | 844  | 1,447                      | 2,291                      | 1,447                                 |
| <b>TOTAL CURRENT ASSETS</b>                 | <u>221,813</u>                                     | <u>331,928</u>             | <u>553,741</u>             | <u>278,202</u>                        |
| <b>PROPERTY AND<br/>EQUIPMENT</b>           |  |                            |                            |                                       |
| Sewer system                                | 1,092,914  | ---                        | 1,092,914                  | ---                                   |
| Water system                                | ---  | 1,970,390                  | 1,970,390                  | ---                                   |
| Equipment - internal service                | ---  | ---                        | ---                        | 321,271                               |
|   | <u>1,092,914</u>                                   | <u>1,970,390</u>           | <u>3,063,304</u>           | <u>321,271</u>                        |
| Less accumulated<br>depreciation            | <u>(470,349)</u>                                   | <u>(1,134,485)</u>         | <u>(1,604,834)</u>         | <u>(207,639)</u>                      |
| <b>NET PROPERTY AND<br/>EQUIPMENT</b>       | <u>622,565</u>                                     | <u>835,905</u>             | <u>1,458,470</u>           | <u>113,632</u>                        |
| <b>TOTAL ASSETS</b>                         | <u><b>\$ 844,378</b></u>                           | <u><b>\$ 1,167,833</b></u> | <u><b>\$ 2,012,211</b></u> | <u><b>\$ 391,834</b></u>              |
| <b>LIABILITIES AND NET<br/>ASSETS</b>       |  |                            |                            |                                       |
| <b>CURRENT LIABILITIES</b>                  |  |                            |                            |                                       |
| Accounts payable                            | \$ 17,229  | \$ 43,721                  | \$ 60,950                  | \$ 1,296                              |
| Due to other funds                          | 3,241  | 6,445                      | 9,686                      | 2,131                                 |
| Accrued wages                               | 915  | 1,257                      | 2,172                      | 773                                   |
| <b>TOTAL CURRENT<br/>LIABILITIES</b>        | <u>21,385</u>                                      | <u>51,423</u>              | <u>72,808</u>              | <u>4,200</u>                          |
| <b>NET ASSETS</b>                           |  |                            |                            |                                       |
| Invested in capital assets                  | 622,565  | 835,905                    | 1,458,470                  | 113,632                               |
| Unrestricted                                | 200,428  | 280,505                    | 480,933                    | 274,002                               |
| <b>TOTAL NET ASSETS</b>                     | <u>822,993</u>                                     | <u>1,116,410</u>           | <u>1,939,403</u>           | <u>387,634</u>                        |
| <b>TOTAL LIABILITIES AND<br/>NET ASSETS</b> | <u><b>\$ 844,378</b></u>                           | <u><b>\$ 1,167,833</b></u> | <u><b>\$ 2,012,211</b></u> | <u><b>\$ 391,834</b></u>              |

*See Notes to Financial Statements*

**CITY OF PARCHMENT, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET**  
**ASSETS – PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2006**

|                                      | <u>Business-Type Activities – Enterprise Funds</u> |              |              | <u>Internal Service Funds</u> |
|--------------------------------------|--|--------------|--------------|-------------------------------|
|                                      | <u>Sewer</u>                                       | <u>Water</u> | <u>Total</u> |                               |
| OPERATING REVENUES                   |  |              |              |                               |
| Charges for services                 | \$ 269,028   | \$ ---       | \$ 269,028   | \$ ---                        |
| Water sales and installation         | ---  | 239,008      | 239,008      | ---                           |
| Penalties                            | 3,238  | 4,463        | 7,701        | ---                           |
| Hydrant rental                       | ---  | 5,840        | 5,840        | ---                           |
| Equipment rental                     | ---  | ---          | ---          | 50,935                        |
| TOTAL OPERATING REVENUES             | 272,266  | 249,311      | 521,577      | 50,935                        |
| OPERATING EXPENSES                   |  |              |              |                               |
| Salaries and wages                   | 36,221   | 67,934       | 104,155      | 21,906                        |
| Social security                      | 2,242  | 4,208        | 6,450        | 1,346                         |
| Hospital and life insurance          | 12,452   | 24,754       | 37,206       | 8,184                         |
| Pension                              | 1,850  | 3,585        | 5,435        | 1,153                         |
| Worker's compensation                | 728  | 1,455        | 2,183        | 666                           |
| Medicare                             | 524  | 984          | 1,508        | 315                           |
| Safety supplies                      | ---  | 73           | 73           | ---                           |
| Operating supplies                   | 221  | 771          | 992          | ---                           |
| Postage                              | 800  | 927          | 1,727        | ---                           |
| Chemicals                            | ---  | 7,524        | 7,524        | ---                           |
| Gasoline and oil                     | ---  | 1,237        | 1,237        | 5,655                         |
| Repair and maintenance - supplies    | 14,896   | 12,699       | 27,595       | 12,699                        |
| Professional/contractual services    | 341  | 18,283       | 18,624       | ---                           |
| Sewer treatment charges              | 92,460   | ---          | 92,460       | ---                           |
| Uniform rental                       | ---  | 126          | 126          | ---                           |
| Membership and dues                  | ---  | 330          | 330          | ---                           |
| Communications                       | 766  | 2,030        | 2,796        | ---                           |
| Computer services                    | 524  | 524          | 1,048        | ---                           |
| Institutes and training              | ---  | 661          | 661          | ---                           |
| Insurance and bonds                  | 3,675  | 3,675        | 7,350        | 8,028                         |
| Utilities                            | 680  | 34,485       | 35,165       | ---                           |
| Repair and maintenance - contractors | ---  | 10,063       | 10,063       | 4,446                         |
| Repairs and maintenance - vehicles   | ---  | 1,959        | 1,959        | ---                           |
| Rentals                              | 482  | 827          | 1,309        | ---                           |
| Administrative overhead              | 30,000   | 30,000       | 60,000       | 1,500                         |
| Depreciation                         | 22,674   | 46,883       | 69,557       | 19,576                        |
| TOTAL OPERATING EXPENSES             | 221,536  | 275,997      | 497,533      | 85,474                        |
| OPERATING INCOME (LOSS)              | 50,730   | (26,686)     | 24,044       | (34,539)                      |

*See Notes to Financial Statements*

**CITY OF PARCHMENT, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET**  
**ASSETS – PROPRIETARY FUNDS (CONTINUED)**  
**For the Year Ended June 30, 2006**

|                                     | <u>Business-Type Activities – Enterprise Funds</u> |                     |                     | <u>Internal<br/>Service<br/>Funds</u> |
|-------------------------------------|--|---------------------|---------------------|---------------------------------------|
|                                     | <u>Sewer</u>                                       | <u>Water</u>        | <u>Total</u>        |                                       |
| NON-OPERATING<br>REVENUES           |  |                     |                     |                                       |
| Investment income                   |  |                     |                     |                                       |
| (expense)                           | \$ (282)   | \$ 1,450            | \$ 1,168            | \$ (753)                              |
| Miscellaneous                       | ---  | 89                  | 89                  | 820                                   |
| TOTAL NON-<br>OPERATING<br>REVENUES |  |                     |                     |                                       |
| (EXPENSES)                          | <u>(282)</u>                                       | <u>1,539</u>        | <u>1,257</u>        | <u>67</u>                             |
| CHANGE IN NET ASSETS                | 50,448   | (25,147)            | 25,301              | (34,472)                              |
| Net assets at beginning of year     | <u>772,545</u>                                     | <u>1,141,557</u>    | <u>1,914,102</u>    | <u>422,106</u>                        |
| NET ASSETS AT END OF<br>YEAR        | <u>\$ 822,993</u>                                  | <u>\$ 1,116,410</u> | <u>\$ 1,939,403</u> | <u>\$ 387,634</u>                     |

*See Notes to Financial Statements*

**CITY OF PARCHMENT, MICHIGAN**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2006**

|   | <u>Business-Type Activities – Enterprise Funds</u> |                  |                  | <u>Internal<br/>Service<br/>Fund</u> |
|---|--|------------------|------------------|--------------------------------------|
|   | <u>Sewer</u>                                       | <u>Water</u>     | <u>Total</u>     |                                      |
| CASH FLOWS FROM<br>OPERATING ACTIVITIES   |  |                  |                  |                                      |
| Receipts from customers   | \$ 246,365   | \$ 252,807       | \$ 499,172       | \$ 50,935                            |
| Payments to suppliers   | (103,216)  | (55,465)         | (158,681)        | (33,646)                             |
| Payments to employees   | (53,856)   | (102,442)        | (156,298)        | (32,901)                             |
| Internal activity – (payments)<br>receipts to other funds                           | (27,241)   | (24,382)         | (51,623)         | 631                                  |
| NET CASH PROVIDED BY<br>(USED IN) OPERATING<br>ACTIVITIES                           | 62,052   | 70,518           | 132,570          | (14,981)                             |
| CASH FLOWS FROM<br>CAPITAL AND RELATED<br>FINANCING ACTIVITIES                      |  |                  |                  |                                      |
| Proceeds from sale of<br>equipment  | ---  | ---              | ---              | 200                                  |
| Purchase of equipment   | ---  | (165,839)        | (165,839)        | ---                                  |
| NET CASH PROVIDED BY<br>(USED IN) CAPITAL<br>AND RELATED<br>FINANCING<br>ACTIVITIES | ---  | (165,839)        | (165,839)        | 200                                  |
| CASH FLOWS FROM<br>INVESTING ACTIVITIES   |  |                  |                  |                                      |
| Sale (purchase) of<br>investments   | (37,682)   | 123,915          | 86,233           | 52,939                               |
| Other   | ---  | 87               | 87               | 621                                  |
| Receipt of interest   | 3,536  | 9,857            | 13,393           | 7,232                                |
| NET CASH PROVIDED BY<br>(USED IN) INVESTING<br>ACTIVITIES                           | (34,146)   | 133,859          | 99,713           | 60,792                               |
| NET INCREASE IN CASH<br>AND CASH EQUIVALENTS  | 27,906   | 38,538           | 66,444           | 46,011                               |
| Cash and cash equivalents at<br>beginning of year                                   | 3,605  | 14,115           | 17,720           | 11,919                               |
| CASH AND CASH<br>EQUIVALENTS AT END<br>OF YEAR                                      | <u>\$ 31,511</u>                                   | <u>\$ 52,653</u> | <u>\$ 84,164</u> | <u>\$ 57,930</u>                     |

*See Notes to Financial Statements*

**CITY OF PARCHMENT, MICHIGAN**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (CONTINUED)**  
**For the Year Ended June 30, 2006**

|   | <u>Business-Type Activities – Enterprise Funds</u> |                         |                          | <u>Internal<br/>Service<br/>Fund</u> |
|---|--|-------------------------|--------------------------|--------------------------------------|
|   | <u>Sewer</u>                                       | <u>Water</u>            | <u>Total</u>             |                                      |
| CASH FLOWS FROM<br>OPERATING ACTIVITIES   |  |                         |                          |                                      |
| Operating income (loss)   | \$ 50,730  | \$ (26,686)             | \$ 24,044                | \$ (34,539)                          |
| Adjustments to reconcile<br>operating loss to cash<br>provided by (used in)<br>operating activities |  |                         |                          |                                      |
| Depreciation  | 22,674   | 46,883                  | 69,557                   | 19,576                               |
| Decrease (increase) in:   |  |                         |                          |                                      |
| Accounts receivable   | (25,901)   | 3,496                   | (22,405)                 | ---                                  |
| Inventory   | ---  | (236)                   | (236)                    | (2,204)                              |
| Increase (decrease) in:   |  |                         |                          |                                      |
| Accounts payable  | 11,147   | 40,138                  | 51,285                   | (614)                                |
| Internal funds payable  | 3,241  | 6,445                   | 9,686                    | 2,131                                |
| Accrued liabilities   | 161  | 478                     | 639                      | 669                                  |
| <b>NET CASH PROVIDED<br/>BY (USED IN)<br/>OPERATING<br/>ACTIVITIES</b>                              | <u><u>\$ 62,052</u></u>                            | <u><u>\$ 70,518</u></u> | <u><u>\$ 132,570</u></u> | <u><u>\$ (14,981)</u></u>            |

*See Notes to Financial Statements*

**CITY OF PARCHMENT, MICHIGAN**  
**STATEMENTS OF FIDUCIARY ASSETS AND LIABILITIES**  
**June 30, 2006**

|  | <u>Payroll<br/>Fund</u> | <u>Tax<br/>Collection<br/>Fund</u> |
|--|-------------------------|------------------------------------|
| <b>ASSETS</b>                          |                         |                                    |
| Cash and cash equivalents              | \$ ---                  | \$ 1,920                           |
| Prepaid expenses                       | 29,285                  | ---                                |
| Due from other funds                   | 42,012                  | ---                                |
| Due from others                        | 1,227                   | ---                                |
| <b>TOTAL ASSETS</b>                    | <u><u>\$ 72,524</u></u> | <u><u>\$ 1,920</u></u>             |
| <b>LIABILITIES</b>                     |                         |                                    |
| Checks written against future deposits | \$ 72,368               | \$ ---                             |
| Accounts payable                       | 156                     | 1,920                              |
| <b>TOTAL LIABILITIES</b>               | <u><u>\$ 72,524</u></u> | <u><u>\$ 1,920</u></u>             |

*See Notes to Financial Statements*

**CITY OF PARCHMENT, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

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**NOTE A – Summary of Significant Accounting Policies**

The accounting policies of the City of Parchment, Michigan (the City) are in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the City.

Reporting Entity

The City was incorporated in 1939 and is located in Kalamazoo County, Michigan. The City is governed by a seven member City Commission, elected by the community at large. This legislative body selects, from among its members, the Mayor, and appoints a City Manager to administer the affairs of the City. The City provides the following services to its residents as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture - recreation, public improvements, planning and zoning, and general administrative services.

As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component unit. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*.

The individual component unit discussed below is included in the City's reporting entity because of its financial relationship with the City.

Discretely Presented Component Unit

The following component unit is reported within the "component units" column in the combined financial statements. The discretely presented component unit is an entity that is legally separate from the City, but for which the City is financially accountable.

*Downtown Development Authority (DDA)*

The members of the governing board are appointed by the City Commission. The Authority's budget is subject to approval by the City Commission. The DDA does not issue any other form of financial statements except as contained in the City of Parchment annual financial statements.



**CITY OF PARCHMENT, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

*Government-Wide Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

**CITY OF PARCHMENT, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

*Fund Based Statements*

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

Additionally, the City reports the following major proprietary funds:

The Water Fund accounts for the costs of providing water services to City residents.

The Sewer Fund accounts for the cost of collection and treating waste waters.

Additionally, the City reports the following other funds:

The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

The Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include; (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

**CITY OF PARCHMENT, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing water and sewer services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for water sales and services, sewage disposal, park and harbor fees and charges. The water and sewer funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Connection fees intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of water, sewage disposal, operations and maintenance, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

City property taxes are assessed as of December 31 and attached as an enforceable lien on property as of July 1 of the following year and are due without penalty on or before August 14. These summer tax bills include the City's own property taxes and taxes billed on behalf of the Parchment school district, the intermediate school district, and Kalamazoo Valley Community College. Real property taxes not collected, but deemed collectable, as of March 1, are turned over to Kalamazoo County for collection, which advances the City 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer. The City acts as a collection agent for Kalamazoo County and the Parchment Community Library for winter property taxes.

The City collects a 1% property tax administration fee.

The 2005 taxable valuation of the city is \$45,793,920 on which ad valorem taxes levy consisted of 16.677 mills for operating purposes. This resulted in \$763,710 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments. This amount is recognized in the General Fund financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

*Deposits and Investments*

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Cash and investments are maintained in an investment pool. Accounting records for the pool are maintained on a fund basis. Shared pooled investment income is allocated to each fund based on its percentage of the balance in the pool. Investments are stated at fair value (quoted market price or the best available estimate).

**CITY OF PARCHEMENT, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

*Receivables and Payables*

In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances”.

All trade and property tax receivables are shown net of an allowance for uncollectible amounts.

Real property taxes are considered delinquent on August 15<sup>th</sup>, at which time penalties and interest are assessed. Real property taxes not collected, but deemed collectable are turned over to Kalamazoo County for collection as of March 1<sup>st</sup> of the following year. Kalamazoo County advances the City 100% for the delinquent taxes as the County maintains a revolving tax fund to finance delinquent real property taxes for local units.

*Inventories and Prepaid Costs*

Inventories consist primarily of supplies in the proprietary funds. Inventories are recognized as an asset in the proprietary fund types. Inventory is valued at the lower of cost (first in, first out) or market.

Inventories in the governmental fund types are insignificant and are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

*Capital Assets*

Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized.

The City began recording governmental infrastructure constructed on or after July 1, 2003 as allowed by GASB 34.

**CITY OF PARCHMENT, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

Building, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

|                                    |                 |
|------------------------------------|-----------------|
| Building and building improvements | 50 to 60 years  |
| Utility systems                    | 25 to 100 years |
| Roads                              | 20 years        |
| Other Infrastructure               | 15 to 25 years  |
| Vehicles                           | 5 to 20 years   |
| Heavy duty equipment               | 20 to 40 years  |
| Machinery and equipment            | 5 to 25 years   |

*Long-Term Obligations*

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in applicable governmental activities, business type activities, or proprietary fund type statement of net assets.

*Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Contributed capital is recorded in proprietary funds for capital grants or contributions from customers or other funds.

Comparative Data/Reclassifications

Comparative data is not included in the City's financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the City's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

**NOTE B - Stewardship, Compliance, and Accountability**

Fund Deficit

The City has accumulated a net assets deficit in the Downtown Development Authority (DDA) Fund. The deficit is a result of bonds that were issued in 1997. The proceeds of these bonds were used to purchase infrastructure assets. As allowed by GASB 34, the City has chosen to capitalize infrastructure assets prospectively, and to not go back and capitalize infrastructure assets from prior periods.

**CITY OF PARCHMENT, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

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**NOTE B - Stewardship, Compliance, and Accountability (Continued)**

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first commission meeting in April, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1<sup>st</sup>. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to June 1<sup>st</sup>, the budget is legally adopted by the City Commission.
4. The City Manager is authorized to transfer up to \$5,000 from any function of the budget to any other function of the budget within the same fund without further approval.
5. At the beginning of each quarter during the fiscal year, and more often if required by the City Commission, the City Manager shall submit to the Commission data showing the relation between the estimated and actual income and expenses to date; and if it shall appear that the income is less than anticipated, the Commission may reduce appropriations, except any amounts required for debt and interest charges, to such degree as may be necessary to keep expenditures within income and designated reserves. If the revenues exceed the amounts estimated in the budget, the Commission may make supplemental appropriations.
6. Budgets for the General Fund and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budgeted amounts are as originally adopted or amended by the City Commission.

The Uniform Budgeting and Accounting Act, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The City's actual expenditures and budgeted expenditures for the funds budgeted have been shown on a functional basis. The approved budgets of the City for these budgeted funds were adopted on the line item level.

**CITY OF PARCHMENT, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

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**NOTE B - Stewardship, Compliance, and Accountability (Continued)**

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated as follows:

| <u>Fund</u> | <u>Budget Item</u>      | <u>Budget<br/>Appropriation</u> | <u>Actual<br/>Expenditure</u> | <u>Variance</u> |
|-------------|-------------------------|---------------------------------|-------------------------------|-----------------|
| General     | Recreation and Cultural | \$ 97,045                       | \$ 108,306                    | \$ 11,261       |
|             | Capital outlay          | 68,700                          | 422,368                       | 353,668         |
|             | Debt service            | ---                             | 38,567                        | 38,567          |

**NOTE C – Cash and Investments**

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

|  |                     |
|--|---------------------|
| Statement of Net Assets:               |                     |
| Cash                                   | \$ 433,746          |
| Investments                            | 1,619,024           |
| Fiduciary Funds:                       |                     |
| Cash                                   | 1,920               |
| Checks written against future deposits | (72,368)            |
| Total Cash and Investments             | <u>\$ 1,982,322</u> |

Cash and investments as of June 30, 2006 consist of the following:

|               |                     |
|---------------|---------------------|
| Cash on hand  | \$ 300              |
| Bank deposits | 362,998             |
| Investments   | 1,619,024           |
| Total         | <u>\$ 1,982,322</u> |

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes the City to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

**CITY OF PARCHMENT, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

**NOTE C – Cash and Investments (Continued)**

The governing body has designated three banks for deposit of local unit funds. The investment policy adopted by the Commission has authorized all of the investments allowable under Michigan law. City's deposits and investment policy are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Entity's investments by maturity:

| Investment Type           |                     | Remaining Maturity (in Months) |                    |                    |                        |
|---------------------------|---------------------|--------------------------------|--------------------|--------------------|------------------------|
|                           |                     | 12 Months<br>or Less           | 13 to 24<br>Months | 25 to 60<br>Months | 60 Months<br>or longer |
| Certificates of Deposit   | \$ 379,000          | \$ --                          | \$ 130,000         | \$ 199,000         | \$ 50,000              |
| Federal Agency Securities | 1,290,000           | 190,000                        | 750,000            | 270,000            | 80,000                 |
| Total                     | <u>\$ 1,669,000</u> | <u>\$ 190,000</u>              | <u>\$ 880,000</u>  | <u>\$ 469,000</u>  | <u>\$ 130,000</u>      |

**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating for each investment type.

| Investment                | Fair Value   | Rating | Rating Organization |
|---------------------------|--------------|--------|---------------------|
| Federal Agency Securities | \$ 1,247,969 | Aaa    | Moody's             |



**CITY OF PARCHMENT, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

**NOTE C – Cash and Investments (Continued)**

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single user. The investment policy of the City contains that the investments shall be diversified by the specific maturity dates, individual financial institutions or a specific class of securities in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. Investments in any one issuer that represent 5% or more of total city investments are as follows:

| Issuer                       | Investment Type         | Reported Amount |
|------------------------------|-------------------------|-----------------|
| West Michigan Community Bank | Certificate of deposit  | \$ 100,000      |
| Lasalle Bank                 | Certificates of deposit | 199,000         |
| FHLB                         | Federal agency security | 450,000         |
| FHLMC                        | Federal agency security | 250,000         |
| FNMA                         | Federal agency security | 590,000         |

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. At year end, the City had \$267,967 of bank deposits that were uninsured and uncollateralized.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The City had an uninsured balance of \$93,978 relating to certificate of deposits, and no custodial credit risk relating to securities, because all securities are registered, and are held by brokerage firms in the City's name. As of June 30, 2006, City investments in the following investment types were held by two broker-dealers (counterparties) that were used by the City to buy the securities:

| Investment Type           | Carrying Value | How Held     |
|---------------------------|----------------|--------------|
| Certificate of deposit    | \$ 371,056     | Counterparty |
| Federal agency securities | 1,247,969      | Counterparty |

Foreign Currency Risk

The City is not authorized to participate in investments that have this type of risk.

**CITY OF PARCHMENT, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

**NOTE D – Capital Assets**

Capital asset activity of the City's governmental activities was as follows:

|   | July 1,<br>2005     | Additions         | Disposals     | June 30,<br>2006    |
|---|---------------------|-------------------|---------------|---------------------|
| Capital assets not being depreciated                                |                     |                   |               |                     |
| Land  | \$ 1,303,688        | \$ ---            | \$ ---        | \$ 1,303,688        |
| Capital assets being depreciated                                    |                     |                   |               |                     |
| Buildings and improvements  | 270,082             | 393,315           | ---           | 663,397             |
| Machinery and equipment   | 1,443,125           | 29,053            | 23,896        | 1,448,282           |
| Infrastructure  | 433,845             | 28,742            | ---           | 462,587             |
|   | <u>2,147,052</u>    | <u>451,110</u>    | <u>23,896</u> | <u>2,574,266</u>    |
| Less accumulated depreciation                                       |                     |                   |               |                     |
| Buildings and improvements  | 172,735             | 5,637             | ---           | 178,372             |
| Machinery and equipment   | 820,902             | 86,935            | 23,896        | 883,941             |
| Infrastructure  | 24,893              | 19,440            | ---           | 44,333              |
|   | <u>1,018,530</u>    | <u>112,012</u>    | <u>23,896</u> | <u>1,106,646</u>    |
| Net capital assets being depreciated                                | <u>1,128,522</u>    | <u>339,098</u>    | <u>---</u>    | <u>1,467,620</u>    |
| Governmental capital assets total – net of accumulated depreciation | <u>\$ 2,432,210</u> | <u>\$ 339,098</u> | <u>\$ ---</u> | <u>\$ 2,771,308</u> |

**CITY OF PARCHMENT, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

**NOTE D – Capital Assets (Continued)**

Capital asset activity of the City's business-type activities was as follows:

|  | July 1,<br>2005     | Additions        | Disposals     | June 30,<br>2006    |
|--|---------------------|------------------|---------------|---------------------|
| Capital assets not being depreciated:                                |                     |                  |               |                     |
| Land   | \$ 7,000            | \$ ---           | \$ ---        | \$ 7,000            |
| Capital assets being depreciated                                     |                     |                  |               |                     |
| Buildings and improvements   | 269,184             | ---              | ---           | 269,184             |
| Other improvements   | 13,647              | ---              | ---           | 13,647              |
| Machinery and equipment  | 1,067,869           | 165,839          | ---           | 1,233,708           |
| Distribution and collection systems                                  | 1,539,768           | ---              | ---           | 1,539,768           |
|  | <u>2,890,468</u>    | <u>165,839</u>   | <u>---</u>    | <u>3,056,307</u>    |
| Less accumulated depreciation  |                     |                  |               |                     |
| Buildings and improvements   | 115,205             | 5,737            | ---           | 120,942             |
| Improvements other than buildings                                    | 3,352               | 342              | ---           | 3,694               |
| Machinery and equipment  | 739,414             | 38,538           | ---           | 777,952             |
| Distribution and collection systems                                  | 677,306             | 24,939           | ---           | 702,245             |
|  | <u>1,535,277</u>    | <u>69,556</u>    | <u>---</u>    | <u>1,604,833</u>    |
| Net capital assets being depreciated                                 | <u>1,355,191</u>    | <u>96,283</u>    | <u>---</u>    | <u>1,451,474</u>    |
| Business-type capital assets total – net of accumulated depreciation | <u>\$ 1,362,191</u> | <u>\$ 96,283</u> | <u>\$ ---</u> | <u>\$ 1,458,474</u> |

Capital asset activity of the City's component units was as follows:

|   | July 1,<br>2005 | Additions       | Disposals     | June 30,<br>2006 |
|---|-----------------|-----------------|---------------|------------------|
| Capital assets being depreciated                                      |                 |                 |               |                  |
| Machinery and equipment   | \$ 7,977        | \$ ---          | \$ ---        | \$ 7,977         |
| Less accumulated depreciation   |                 |                 |               |                  |
| Machinery and equipment   | <u>2,260</u>    | <u>797</u>      | <u>---</u>    | <u>3,057</u>     |
| Component unit capital assets total – net of accumulated depreciation | <u>\$ 5,717</u> | <u>\$ (797)</u> | <u>\$ ---</u> | <u>\$ 4,920</u>  |

**CITY OF PARCHMENT, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

**NOTE D – Capital Assets (Continued)**

Depreciation expense was charged to programs of the primary government as follows:

|   |                   |
|---|-------------------|
| Government activities   |                   |
| General government  | \$ 36,974         |
| Public safety   | 23,109            |
| Public works  | 23,109            |
| Recreation and culture  | 9,244             |
| Internal service fund depreciation is charged to the various functions based on usage of assets | 19,576            |
| Total governmental activities   | <u>\$ 112,012</u> |
| Business-type activities  |                   |
| Water   | \$ 46,882         |
| Sewer   | 22,674            |
| Total business-type activities  | <u>\$ 69,556</u>  |

**NOTE E – Interfund Receivables and Payables**

The composition of interfund balances as of June 30, 2006, is as follows:

Due to/from other funds:

| Receivable Fund | Payable Fund           | Amount    |
|-----------------|------------------------|-----------|
| Payroll Fund    | General Fund           | \$ 28,726 |
| Payroll Fund    | Major Street Fund      | 865       |
| Payroll Fund    | Local Street Fund      | 603       |
| Payroll Fund    | Sewer Fund             | 3,241     |
| Payroll Fund    | Water Fund             | 6,445     |
| Payroll Fund    | Internal Services Fund | 2,131     |

**CITY OF PARCHMENT, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

**NOTE F – Long-Term Debt**

|   | Balance at<br>July 1, 2005 | Additions        | Deductions          | Balance at<br>June 30, 2006 |
|---|----------------------------|------------------|---------------------|-----------------------------|
| <b>GOVERNMENTAL<br/>ACTIVITIES</b>  |                            |                  |                     |                             |
| Note payable to a bank in<br>the amount of<br>\$160,063, including<br>interest at 3.41%                           | \$ 129,067                 | \$ ---           | \$ (30,469)         | \$ 98,598                   |
| Capital lease payable to a<br>finance company in the<br>amount of \$17,495,<br>including interest at<br>26.2%     | 10,497                     | ---              | (3,499)             | 6,998                       |
| Compensated absences  | 49,332                     | 24,807           | ---                 | 74,139                      |
| <b>TOTAL GOVERNMENTAL<br/>ACTIVITIES</b>  | 188,896                    | 24,807           | (33,968)            | 179,735                     |
| <b>COMPONENT UNIT</b>   |                            |                  |                     |                             |
| 1991 general obligation bonds<br>in the amount of \$1,660,000,<br>including interest ranging<br>from 4.8% to 5.7% | 1,045,000                  | ---              | (165,000)           | 880,000                     |
| <b>TOTAL INDEBTEDNESS</b>   | <u>\$ 1,233,896</u>        | <u>\$ 24,807</u> | <u>\$ (198,968)</u> | <u>\$ 1,059,735</u>         |

Annual debt service requirements to maturity for debt obligations are as follows:

|   | Governmental Activities |                 | Component Unit    |                   |
|---|-------------------------|-----------------|-------------------|-------------------|
| Payments due for years<br>ending June 30: | Principal               | Interest        | Principal         | Interest          |
| 2007                                      | \$ 31,712               | \$ 3,356        | \$ 160,000        | \$ 48,550         |
| 2008                                      | 32,787                  | 2,281           | 160,000           | 40,070            |
| 2009                                      | 34,099                  | 1,157           | 155,000           | 31,430            |
| 2010                                      | ---                     | ---             | 180,000           | 22,905            |
| 2011                                      | ---                     | ---             | 225,000           | 12,825            |
|   | <u>\$ 98,598</u>        | <u>\$ 6,794</u> | <u>\$ 880,000</u> | <u>\$ 155,780</u> |

**CITY OF PARCHMENT, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

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**NOTE F – Long-Term Debt (Continued)**

Capital Leases

The government has entered into a lease agreement as lessee for financing the purchase of a digital copier. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payment as of the inception date. The future minimum lease obligations and the net present value are as follows at June 30, 2006:

|                              |              |
|------------------------------|--------------|
| 2007                         | \$ 3,499     |
| 2008                         | 3,499        |
| Total minimum lease payments | <u>6,998</u> |

Accrued Vacation and Sick Leave Payable

The City has accrued liabilities for accumulated vested sick leave benefits. See Note A for a description of the City's accounting policies related to these items.

**NOTE G – Employee Retirement and Benefit System**

Plan Description

The City has a defined benefit pension plan that covers substantially all full time employees. The plan is operated by the State of Michigan Municipal Employees' Retirement System (MERS), which is a cost-sharing-agent multiple-employer retirement system. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at: 447 N. Canal Road, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires City employees to contribute 4.7% of their annual compensation. The City is required to contribute the remaining amounts necessary to fund MERS, using the actuarial basis specified by statute.

**CITY OF PARCHMENT, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

**NOTE G – Employee Retirement and Benefit System (Continued)**

Annual Pension Costs

For the year ended June 30, 2006, the City's annual pension cost of \$23,888 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal funding cost method. Significant actuarial assumptions used included a rate of return on the investment of present and future assets of 8% per year compounded annually; projected salary increases of 4.5% per year compounded annually, attributable to inflation; additional projected salary increases ranging from 0% to 8.4% per year, depending on age, attributable to seniority/merit.

During the year ended December 31, 2005, the plan experienced an increase of \$30,775 in the net pension obligation. The combined change in net pension obligation resulting from benefit changes, if any, and revisions in actuarial assumptions is \$0.

Three Year Trend Information- (Unaudited)

Three year trend information as of December 31, 2005 follows:

|   | 2005      | 2004      | 2003      |
|---|-----------|-----------|-----------|
| Annual pension cost                     | \$ 28,020 | \$ 26,616 | \$ 21,888 |
| Percentage of APC contributed           | 100       | 100       | 100       |
| Net pension obligation                  | 165,265   | 134,490   | 84,221    |
| Actuarial value of assets               | 2,056,696 | 1,989,692 | 1,956,021 |
| Actuarial accrued liability             | 2,221,961 | 2,124,182 | 2,040,242 |
| Unfunded AAL                            | 165,265   | 134,490   | 84,221    |
| Funded ratio                            | 93        | 94        | 96        |
| Covered payroll                         | 456,333   | 459,732   | 453,158   |
| UAAL as a percentage of covered payroll | 36        | 29        | 19        |

**NOTE H – Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Voluntary employee contributions for the year ended June 30, 2006 were \$12,614.

**CITY OF PARCHMENT, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2006**

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**NOTE I – Other Post-Employment Benefits**

The City provides certain health care benefits for certain retired employees who have ten or more years of continuous City service and do not accept employment elsewhere. Such employees are entitled to paid health insurance for themselves on the basis of one paid year for every five years of continuous employment with the City. There is one former employee receiving benefits under this program. The cost of retiree health care benefits is recognized as premiums are paid, and for the year amounted to approximately \$8,275. The estimated liability for postretirement health care benefits at current costs for the individual presently receiving benefits is approximately \$16,550. Additionally, all employees, upon retirement, may continue membership in the City's health insurance plan by paying, in a timely manner, the amount of the monthly premium due, to the City, who shall pay the premium to the health insurance carrier.

**NOTE J – Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for death and disability, hospitalization and life claims, and is a member of the Michigan Municipal League Liability and Property Pool for claims relating to liability, fire, fleet and bonds. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The City participates in the Michigan Municipal Workers' Compensation Fund risk pools for the purpose of its workers' compensation coverage.

The Michigan Municipal League Risk Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

**NOTE K – Commitments and Contingencies**

The City has a potential contingent liability associated with the City owned mill property. The City estimates that environmental clean up costs would be \$3.5 million and demolition costs of the mill would be \$3 million. There is currently no specific time table when the demolition and clean up must occur.

The City has participated in a federally assisted grant program. The program is subject to financial and compliance audits by the grantor or their representatives, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. The City's Management believes there is compliance with the grant agreement.



**CITY OF PARCHMENT, MICHIGAN**  
**BUDGET COMPARISON SCHEDULE – GENERAL FUND**  
**For the Year Ended June 30, 2006**

|  | <u>Budgeted Amounts</u> |                    | <u>Actual</u>     | <u>Variance with<br/>Final Budget<br/>Fav (Unfav)</u> |
|--|-------------------------|--------------------|-------------------|---|
|  | <u>Original</u>         | <u>Final</u>       |                   |   |
| <b>REVENUES</b>  |                         |                    |                   |   |
| Taxes  | \$ 741,081              | \$ 741,081         | \$ 702,096        | \$ (38,985)   |
| Licenses and permits   | 88,500                  | 88,500             | 95,699            | 7,199   |
| Contributions  | ---                     | ---                | 408,639           | 408,639   |
| State grants   | 202,112                 | 202,112            | 205,323           | 3,211   |
| Federal grants   | ---                     | ---                | 248,525           | 248,525   |
| Charges for services   | 1,500                   | 1,500              | 7,733             | 6,233   |
| Fines and forfeitures  | 14,400                  | 14,400             | 13,555            | (845)   |
| Investment income  | 33,000                  | 33,000             | 26,064            | (6,936)   |
| Other revenue  | 65,000                  | 65,000             | 73,952            | 8,952   |
| <b>TOTAL REVENUES</b>  | <u>1,145,593</u>        | <u>1,145,593</u>   | <u>1,781,586</u>  | <u>635,993</u>  |
| <b>EXPENDITURES</b>  |                         |                    |                   |   |
| General government   | 514,462                 | 1,176,491          | 563,668           | 612,823   |
| Public safety  | 443,730                 | 443,730            | 389,592           | 54,138  |
| Public works   | 260,480                 | 260,480            | 249,609           | 10,871  |
| Recreation and cultural  | 97,045                  | 97,045             | 108,306           | (11,261)  |
| Capital outlay   | 68,700                  | 68,700             | 422,368           | (353,668)   |
| Debt service   | ---                     | ---                | 38,567            | (38,567)  |
| <b>TOTAL EXPENDITURES</b>  | <u>1,384,417</u>        | <u>2,046,446</u>   | <u>1,772,110</u>  | <u>274,336</u>  |
| <b>EXCESS (DEFICIENCY) OF<br/>REVENUES OVER<br/>EXPENDITURES</b> | <u>(238,824)</u>        | <u>(900,853)</u>   | <u>9,476</u>      | <u>910,329</u>  |
| <b>Fund balance at beginning of year</b>                         | <u>802,753</u>          | <u>802,753</u>     | <u>802,753</u>    | <u>---</u>  |
| <b>FUND BALANCE (DEFICIT)<br/>AT END OF YEAR</b>                 | <u>\$ 563,929</u>       | <u>\$ (98,100)</u> | <u>\$ 812,229</u> | <u>\$ 910,329</u>                                     |

**CITY OF PARCHMENT, MICHIGAN**  
**BUDGET COMPARISON SCHEDULE – MAJOR STREET FUND**  
**For the Year Ended June 30, 2006**

|  | <u>Budgeted Amounts</u>  |                          |                          | <b>Variance with<br/>Final Budget<br/>Fav (Unfav)</b> |
|--|--------------------------|--------------------------|--------------------------|---|
|  | <u>Original</u>          | <u>Final</u>             | <u>Actual</u>            |   |
| <b>REVENUES</b>  |                          |                          |                          |   |
| State grants   | \$ 93,549                | \$ 93,549                | \$ 91,299                | \$ (2,250)  |
| Investment income  | 5,000                    | 5,000                    | 955                      | (4,045)   |
| <b>TOTAL REVENUES</b>  | <u>98,549</u>            | <u>98,549</u>            | <u>92,254</u>            | <u>(6,295)</u>  |
| <b>EXPENDITURES</b>  |                          |                          |                          |   |
| Routine maintenance  | 14,454                   | 14,454                   | 4,834                    | 9,620   |
| Traffic services   | 6,061                    | 6,061                    | 5,639                    | 422   |
| Winter maintenance   | 18,104                   | 18,104                   | 12,882                   | 5,222   |
| Administration   | 8,216                    | 8,216                    | 8,536                    | (320)   |
| Capital outlay   | 26,000                   | 26,000                   | 28,742                   | (2,742)   |
| <b>TOTAL EXPENDITURES</b>  | <u>72,835</u>            | <u>72,835</u>            | <u>60,633</u>            | <u>12,202</u>   |
| <b>OTHER FINANCING USES</b>  |                          |                          |                          |   |
| Operating transfer out   | <u>23,000</u>            | <u>23,000</u>            | <u>---</u>               | <u>23,000</u>   |
| <b>TOTAL EXPENDITURES AND<br/>OTHER FINANCING USES</b>                       | <u>95,835</u>            | <u>95,835</u>            | <u>60,633</u>            | <u>35,202</u>   |
| <b>EXCESS OF REVENUES OVER<br/>EXPENDITURES AND<br/>OTHER FINANCING USES</b> | <u>2,714</u>             | <u>2,714</u>             | <u>31,621</u>            | <u>28,907</u>   |
| Fund balance at beginning of year  | <u>243,065</u>           | <u>243,065</u>           | <u>243,065</u>           | <u>---</u>  |
| <b>FUND BALANCE AT END OF<br/>YEAR</b>                                       | <u><b>\$ 245,779</b></u> | <u><b>\$ 245,779</b></u> | <u><b>\$ 274,686</b></u> | <u><b>\$ 28,907</b></u>                               |

**CITY OF PARCHMENT, MICHIGAN**  
**BUDGET COMPARISON SCHEDULE – LOCAL STREET FUND**  
**For the Year Ended June 30, 2006**

|   | <u>Budgeted Amounts</u> |                         |                         | <b>Variance with<br/>Final Budget<br/>Fav (Unfav)</b> |
|---|-------------------------|-------------------------|-------------------------|---|
|   | <u>Original</u>         | <u>Final</u>            | <u>Actual</u>           |   |
| <b>REVENUES</b>                                     |                         |                         |                         |   |
| State grants  | \$ 35,467               | \$ 35,467               | \$ 36,545               | \$ 1,078  |
| Investment income                                   | 1,500                   | 1,500                   | 359                     | (1,141)   |
| <b>TOTAL REVENUES</b>                               | <u>36,967</u>           | <u>36,967</u>           | <u>36,904</u>           | <u>(63)</u>   |
| <b>EXPENDITURES</b>                                 |                         |                         |                         |   |
| Routine maintenance                                 | 30,628                  | 30,628                  | 23,555                  | 7,073   |
| Traffic services                                    | 3,427                   | 3,427                   | 1,495                   | 1,932   |
| Winter maintenance                                  | 17,056                  | 17,056                  | 12,862                  | 4,194   |
| Administration                                      | 3,547                   | 3,547                   | 1,501                   | 2,046   |
| Capital outlay                                      | 5,641                   | 5,641                   | ---                     | 5,641   |
| <b>TOTAL EXPENDITURES</b>                           | <u>60,299</u>           | <u>60,299</u>           | <u>39,413</u>           | <u>20,886</u>   |
| <b>DEFICIENCY OF REVENUES<br/>OVER EXPENDITURES</b> | (23,332)                | (23,332)                | (2,509)                 | 20,823  |
| Fund balance at beginning of year                   | <u>57,884</u>           | <u>57,884</u>           | <u>57,884</u>           | <u>---</u>  |
| <b>FUND BALANCE AT END OF<br/>YEAR</b>              | <u><u>\$ 34,552</u></u> | <u><u>\$ 34,552</u></u> | <u><u>\$ 55,375</u></u> | <u><u>\$ 20,823</u></u>                               |

# SEBER TANS, PLC

## CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

September 8, 2006

To the Honorable Mayor  
and Members of the City Commission  
City of Parchment, Michigan

In planning and performing our audit of the financial statements of the City of Parchment, Michigan (the City) as of and for the year ended June 30, 2006, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that either will have a significant impact on the accounting function of the City or that are opportunities for strengthening internal controls and operating efficiency. Such matters are described in the following paragraphs.

### Bank Reconciliations

As discussed in the prior year management letter, it was noted during our audit that canceled checks were not returned to the City with the monthly bank statements.

We recommend that bank statements and the related canceled checks be directly received, opened, and reviewed by someone independent of the bank reconciliation process. At a minimum, we recommend that the checks be made available on-line. In addition, we recommend that a member of the City Commission receive a duplicate statement and copies of the cancelled checks and sample supporting documentation on a test basis and the related warrant and also test items on the reconciliation on a monthly basis.

### Cash Receipts

As discussed in the prior year management letter, cash receipts are received by one employee. We recommend that all cash receipts be received, processed and recorded under dual control.

### Cash Disbursements

During our audit it was noted that a signature stamp was used to sign checks. We recommend the usage of signature stamps be terminated, since their usage cannot be numerically controlled.

### Payroll

During our audit it was noted that the City Clerk is responsible for printing, signing, and distributing the payroll checks. Canceled checks are not returned with the bank statement. We recommend that someone independent of the payroll process review the payroll register and sign the checks. In addition, we recommend that canceled checks be returned along with the bank statements and that they be tested by someone independent of the payroll process.

### General Ledger Misp postings

As discussed in the prior year management letter, during our audit we noted numerous misclassifications in the general ledger that are not corrected in a timely matter. We recommend that management review the process for posting receipts and expenditures and making journal entries to determine why the errors are occurring and how processes can be improved.

### Budget

As discussed in the prior year management letter, during our audit we noted there were significant variances between budgeted and actual amounts for various revenue and expenditure line items. We recommend that management review the process for ensuring the accuracy of budgeted amounts, and that the budget be appropriately amended to properly authorize expenditures.

### Investment Policy

During our audit we noted that the City investment portfolio consists mainly of bonds. The effective investment yield based on the average investment balance amounted to approximately 1.66%. We recommend that the City review its investment policy, attempt to minimize risk and maximize investment return and consult with an investment professional. We believe that the City is assuming more risk than is warranted based on the rate of return.

### Federal Grant

The City received a HUD grant for \$248,525. We were unable to determine whether the City is in compliance with the grant agreement. We recommend that the City work with HUD to insure compliance with the grant agreement and gain a full understanding of their responsibilities under the agreement.

\*\*\*\*

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various administrative personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

  
Seber Tans, PLC

# SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

September 8, 2006

To the Honorable Mayor  
and Members of the City Commission  
City of Parchment, Michigan

In planning and performing our audit of the financial statements of City of Parchment, Michigan (the City) as of and for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

The City does not have enough accounting personnel to provide for adequate segregation of duties in the receipt, disbursement, payroll, and reconciliation process.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the 2006 financial statements, and this report does not affect our report on those financial statements dated September 8, 2006. We have not considered internal control since the date of our report.

This report is intended solely for the information and use of management and the City Commission and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

  
Seber Tans, PLC

# SEBER TANS, PLC

## CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

September 8, 2006

To the Honorable Mayor  
and Members of the City Commission  
City of Parchment, Michigan

We have audited the financial statements of the City of Parchment, Michigan (the City) as of and for the year ended June 30, 2006, and have issued our report thereon dated September 8, 2006. Professional standards require that we provide you with the following information related to our audit.

### Our Responsibility under Auditing Standards Generally Accepted in the United States

As stated in our engagement letter dated August 23, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

### Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note A to the financial statements. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the historic value of fixed assets and the related

accumulated depreciation required by GASB Statement No. 34, as well as depreciation expense recorded for the year under audit.

Management's estimate of the value of fixed assets and related accumulated depreciation was based on a third party appraisal. We evaluated the key factors and assumptions used to develop the values for fixed assets and the related accumulated depreciation in determining that they are reasonable in relation to the financial statements taken as a whole.

#### Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). The following audit adjustments, in our judgment, indicate matters that could have a significant effect on the City's financial reporting process:

- We proposed more than 50 adjustments in all funds relating primarily to receivables, payables, investments, and fixed assets. All proposed audit adjustments were recorded by management.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principals and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

#### Difficulties Encountered in Performing the Audit

Our audit fieldwork was delayed due to the numerous adjustments that needed to be recorded in the general ledger for all funds.

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This information is intended solely for the use of management and the City Commission and is not intended to be and should not be used by anyone other than these specified parties.

*Seber Tans, PLC*  
Seber Tans, PLC